

Kenya Shilling Performance

KES	Value	Daily Change %	YTD Change %
US Dollar	107.7118	0.0%	(6.3%)
STG Pound	138.6679	(0.1%)	(4.3%)
EURO	126.2674	0.1%	(11.4%)

Source: CBK; Negative () = Depreciation, Positive = Appreciation

Market Summary

Index	Value	Daily Change %	YTD Change %
NASI	134.48	(0.2%)	(19.2%)
NSE 20	1,811.29	(3.6%)	(31.8%)
NSE 25	3,101.28	(0.3%)	(24.4%)

	Today	Previous	Daily Change %
Market Capitalization (KES Bn)	2,055.25	2,060.09	(0.2%)
Number of Shares Traded (Q)	7,944,100	12,874,800	(38.3%)
Equity Turnover (KES)	247,526,035	327,173,203	(24.3%)
Foreign Buys (%)	N/A	28.0%	
Foreign Sells (%)	N/A	56.6%	
Foreign Participation (%)	N/A	42.3%	

Source: NSE

Equities Performance

Top Gainers	Price (KES)	Daily Change %	YTD Change	Volume Traded
1. I&M Holdings	48.95	10.0%	(9.4%)	400
2. BK Group	18.00	4.3%	(35.7%)	100
3. Total Kenya	23.55	2.8%	(14.4%)	400
4. HF Group	3.85	2.7%	(40.4%)	13,500
5. Britam	6.68	2.5%	(25.8%)	73,800

Top Losers	Price (KES)	Daily Change	YTD Change %	Volume Traded
1. Scangroup	11.05	(43.8%)	(35.8%)	100,300
2. Longhorn	4.50	(8.2%)	(33.4%)	12,200
3. Trans-Century	1.69	(7.7%)	(32.4%)	16,400
4. Umeme	7.38	(7.5%)	(10.9%)	1,600
5. Bamburi	26.35	(5.6%)	(67.1%)	19,200

Movers	Turnover (KES)	Volume (KES)	Price (KES)
1. EABL	98,668,350	613,800	160.75
2. Safaricom	63,805,180	2,254,600	28.30
3. Equity Group	51,518,435	1,577,900	32.65
4. KCB Group	7,468,815	213,700	34.95
5. KenGen	5,162,454	869,100	5.94

Source: NSE

Market Commentary

The All Share Index and NSE 20 Share Index retreated by 0.2% and 3.6% to close the day at 134.48 and 1,811.29 respectively. We attribute this to price declines on majority of the counters. Notably, WPP Scangroup emerged the biggest loser of the day, declining by 43.8% to close (VWAP) at KES 11.05 as the book closed (trading ex-dividend) on special dividend payment of KES 8.00. The banking sector accounted for 29.0% of the day's traded value with movement on I&M (+10.0% to KES 48.95), BK Group (+4.3% to KES 18.00), Equity (+0.2% to KES 32.65) and KCB (+0.1% to KES 34.95). There remains selling pressure in the market.

Recommendations

Counter	Recommendation	Price (KES)	Daily Change %	YTD Change %
KCB Group	Long-term Buy	34.95	0.1%	(35.3%)
Equity Group	Long-term Buy	32.65	0.2%	(39.0%)
Absa Kenya	Long-term Buy	9.34	(0.2%)	(30.0%)
Stanbic Holdings	Long-term Buy	81.00	(2.4%)	(25.9%)
NCBA	Long-term Buy	25.00	(1.8%)	(32.2%)
StanChart	Sell	155.00	(0.3%)	(23.5%)
Safaricom	Hold	28.30	0.0%	(10.2%)
HF	Sell	3.85	2.7%	(40.4%)
Bamburi	Sell	26.35	(5.6%)	(67.1%)

For more detailed information on the following recommendations, please click [here](#):

Bonds Performance

	Today	Previous	Daily Change %
Total Deals	112	113	(0.9%)
Bond Turnover	5,292,909,916	6,235,597,676	(15.1%)

Actively Traded Bonds

GOK Bonds	Fixed Rate %	Traded Yield %	Value Traded (Mn)	DTM
FXD1/2019/5	11.3040	9.9000	700.0	1,300
FXD1/2019/15	12.8570	12.1000	600.0	4,912
IFB1/2020/6	10.2000	9.9500	500.0	2,126

Source: NSE; DTM = Days to Maturity

News Highlights

ILAM Fahari I-REIT Posts 12.6% y/y Growth in Profits for 1H2020

- ILAM Fahari (formerly Stanlib Fahari) I-REIT reported a 12.6% y/y growth in profits for 1H2020 to KES 86.0 million from 76.4 million registered in 1H2019.
- The increase in profit for the period was primarily due to an >100% y/y increase in fair value of investment property to KES 7.8 million from a loss of KES 10.3 million in 1H2019 as well as a 5.1% y/y decrease in operating expenses to KES 101.9 million (1H2019: KES 107.4 million).
- Revenue declined by 7.8% y/y to 166.9 million from KES 181.0 million recorded in 1H2019. The decrease in revenue was mainly owing to a >100% y/y drop in straight-lining of lease income to a negative position of KES 7.8 million which offset the 2.4% y/y growth in rental and related income to KES 174.7 million. The slower growth in rental and related income was attributed to the negative financial impact of the Covid-19 pandemic on most businesses, especially in the retail sector. Tenants adversely affected by the pandemic were given rebates which suppressed the growth.
- Other income rose slightly by 0.3% y/y to KES 13.2 million, as sundry income edged up by >100% y/y to KES 120,400 (1H2019: nil). Interest income, however, dipped marginally by 0.6% y/y to KES 13.1 million. The drop in interest income was attributed to downward pressure on interest rates.
- The cost savings were primarily as a result of an 8.8% y/y decline in fund operating expenses to KES 53.4 million. According to management, this was mainly due to savings in expenses towards the Annual General Meeting as well as Investor Briefing activities, which have been deferred to August due to the pandemic.

- The company is keen to lower the expenses further to ensure value addition to the unitholders in spite of the pandemic.
- Property expenses dipped marginally by 0.7% y/y to KES 48.5 million. The company attributed the slight improvement in property expenses to measures taken to control expenses and cushion the fund from the effects of the pandemic.
- The increase in fair value of investment property was owing to a >100% y/y growth in straight-lining of lease income to 7.8 million.
- The REIT currently owns four properties (a shopping center, an office building and two semi-office/ light industrial buildings) valued at KES 3.5 billion.

Commentary

- We note with concern the decline in revenues, as reduction in expenses is not a sustainable way to grow profits. The commercial office space segment in particular has been hit with a supply glut prior to the pandemic. We expect further weakening in rental and related revenue as the Covid-19 pandemic persists.
- Further we note that the unit price is still significantly lower than the net asset value per unit of KES 20.52 as at 1H2020. To close this gap, management needs to find suitable investments so as to change investor sentiment on the I-REIT.
- Although the current unit price makes the dividend yield attractive (given that I-REITS are required to distribute 80.0% of the earnings*), dividend safety remains a concern mainly due to the aforementioned reason (weak revenue growth).
- We opine that increased diversification in investments (type and location of the properties) would be needed to strengthen the bottom-line. We are **NEUTRAL** on the I-REIT.

*Distributable earnings. Unrealized fair value gains on the properties are likely not distributable.



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Recommendations Guide

LONG-TERM BUY: The Company has strong fundamentals. However, there are certain investments or strategies that would require an investor to have a long-term view of the company to allow for capital appreciation. Also, the company may be facing headwinds which we view as short term

BUY: Strong fundamentals. Minimal risks to the catalysts/growth drivers

NEUTRAL: This is where the positives and negatives in a company almost balance out. You can accumulate for the long term.

SELL: Deteriorating fundamentals. Risks outweigh the catalyst/growth driver

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